

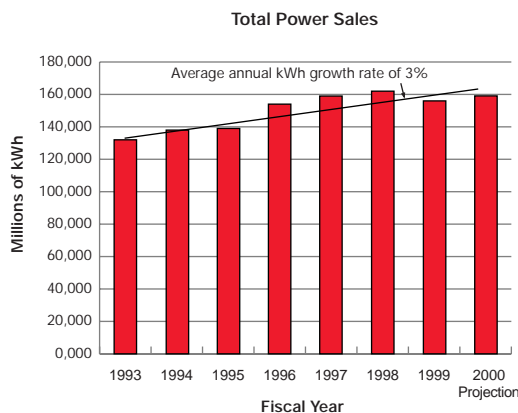
COMPETITIVE POSITION

Generating Prosperity Through Economic Development and Customer Service

Tennessee Valley Region

TVA has long been an integral part of the Tennessee Valley region's economy, which is currently growing at one and a half times the national rate. By supplying one of the most basic ingredients of economic growth – electric power – TVA is a key partner in helping generate prosperity for the nearly eight million people TVA serves.

TVA power system average sales growth of about 3% per year is 1.5 times the national average



The Tennessee Valley's economic uniqueness comes in part from its relatively rural nature and the strength of its manufacturing sector as compared with the nation's. The region is considerably more rural than the U.S. overall. Close to half of its residents live in non-metropolitan counties, as opposed to fewer than one-fourth of all Americans. The Valley's rural nature, however, does not imply the existence of an extensive agricultural sector. Rather the non-metropolitan counties and the region in general have a much greater dependence on manufacturing than the nation overall. Currently, about 29 percent of the Valley's total gross product is generated by manufacturing, compared with 20 percent in the U.S. as a whole.

The high regional concentration in manufacturing stems primarily from the presence of manufac-

turing firms that locate or expand in the Valley in order to benefit from the advantages it offers, including:

- **Central location.** The Tennessee Valley is convenient to the markets of the Northeast, Midwest, Southwest and Southeast. Not only is the region geographically central, but the demographics of the nation have shifted toward the South. This shift has made the Valley into something closer to the demographic center of the eastern U.S. – a change that has motivated Northern manufacturers to move production to the South.
- **Convenient transportation system.** Manufacturers can easily ship their goods to market by interstate, rail, barge or air. The north-south, east-west interstate system running through the Valley makes the region an ideal location for distribution of goods throughout the eastern U.S.
- **Competitive workforce.** Wages are competitive in relation to the U.S. average. Regional earnings in manufacturing fall about 21 percent below the national rate. In addition, the Valley's labor force is known for its strong work ethic.
- **Abundant, low-cost resources, including electricity, water and land.** TVA's low power rates attract industry seeking to reduce industrial production costs. In addition, TVA manages 800 miles of navigable river connected to the major inland waterways of the Mississippi River, which meet the transportation needs of a variety of industries.
- **Quality of life.** The Tennessee Valley's cost of living, moderate four seasons and recreational opportunities attract businesses, industry, families and retirees throughout the U.S.



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Economic Development

TVA continues to build on its original mission of bringing prosperity to the Tennessee Valley. Through its Economic Development program, TVA supports the creation of a strong infrastructure, a skilled workforce and a favorable work environment. Just since 1993, TVA, in partnership with distributors of TVA power and regional industrial development associations, has contributed to a 12 percent increase in the total number of jobs in the Valley, from 3.4 million to 3.8 million, and a 29 percent increase in the regional gross product, from \$180 to \$232 billion in 1999 (adjusted for inflation).

Economic Development Services

TVA works with public and private partners, providing services and support for community development, business start-up, small business growth, industry expansion and industry recruitment. TVA Economic Development services include:

- **Industrial Recruiting Service** - TVA and distributors of TVA power participate in eight Regional Industrial Development Associations (RIDAs) that constitute the Tennessee Valley Industrial Development Association (TVIDA). TVIDA's members cooperate in ventures to recruit new and expanding industries to the Valley.
- **Economic Development Loan Fund** - Using money derived from power revenues, this multimillion-dollar revolving loan fund provides low-interest loans for industrial expansion and relocation projects that are also sponsored and financed by distributors of TVA power. Loans of up to \$2 million are made for the purchase of fixed assets. In 1999 TVA made loans totaling more than \$20 million, which leveraged an additional \$533 million in capital investment and is helping to create and retain 4,500 jobs.
- **Special Opportunities Counties Fund** - This fund assists Tennessee Valley counties in the TVA region with low per capita incomes. Counties receive financial help for community and economic development programs, with special emphasis on industrial expansion projects.
- **Business Development Weeks** - In 1989, TVA in partnership with power distributors and local businesses, launched this program to jump-start economic activity in small and rural towns across the Valley. Since its inception, Valley communities have hosted 167 Business Development Weeks, covering a range of topics including finding capital, starting and managing a business, and developing local leadership. TVA's Mobile Business Center provides personal computers, wireless Internet access and a selection of the latest business software and publications to assist local businesses.
- **Business Incubators** - TVA provides technical assistance and funding to communities interested in supporting local business development through business incubation. Business incubators are facilities designed to help new firms survive the critical start-up phase in business. To date, TVA has invested \$8 million in 18 operational incubators and several incubators under construction. These incubators have created more than 600 businesses and 4,900 jobs.
- **Business Incubator Tenant Loan Fund** - In 1997, TVA established this \$500,000 fund to provide short-term cash flow assistance to business incubator tenants in the Tennessee Valley region. Loans of up to \$25,000 with a maximum payback period of one year are available to the tenants of TVA-assisted incubators in the Valley.
- **Site Selector** - This comprehensive electronic system offers information on available industrial sites and buildings, labor statistics and demographics for every county in the

Tennessee Valley. Site Selector was created by TVA in partnership with the Tennessee Valley Industrial Development Association (TVIDA). Site Selector can be visited on the web at www.tvda-siteselector.com.

- **Economic Development Web Site -**
Economic Development's web site (www.tva.gov/econdev) contains detailed products and services information. Visitors can request information or services on-line through e-mail.

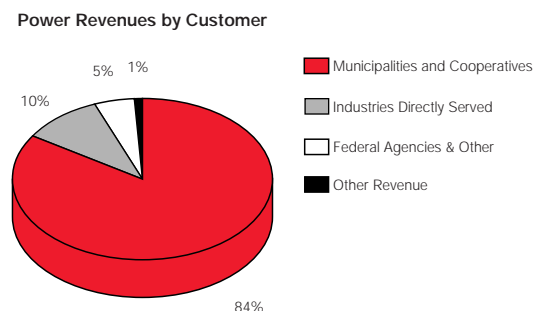
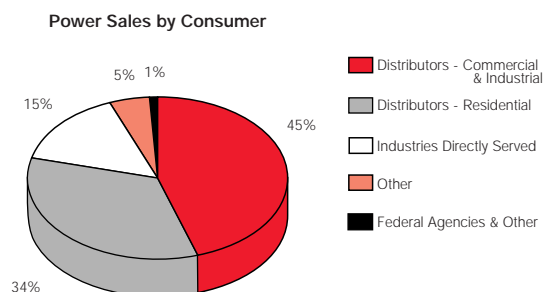
TVA utilizes these economic development tools to work closely with distributors of TVA power and community leaders to attract new industry to the Tennessee Valley.

Customer Service

TVA has partnered with distributors of TVA power to serve the people of the Tennessee Valley for more than 65 years. TVA values this partnership, and as a result, TVA established the important objective of retaining customer allegiance and satisfaction as part of the 10-year Business Plan adopted in July 1997. TVA is continuing to work with customers to provide a variety of service offerings that benefit not only TVA and distributors of TVA power, but also the end-use consumer. Also, TVA is developing pricing structures that provide opportunities for distributors of TVA power and industrial and federal customers to better control their costs.

TVA's Customers

TVA is a generator and provider of power for four major customer groups and four major consumer categories.



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Municipal and Cooperative Distributors

TVA sells electricity to 109 municipal and 50 electric cooperative distributors who distribute the electricity to residential, commercial and industrial consumers. Together, TVA and distributors of TVA power serve nearly eight million people over 80,000 square miles.

Municipal and cooperative power distributors are TVA's two largest groups of customers in kilowatt hour sales. In fiscal year 1999, 84 percent of TVA's power revenues and 79 percent of TVA's total kilowatt hour sales came from electricity sales to power distributors.

Sales of municipal and cooperative distributors are 34 percent to residential consumers and 45 percent to industrial and commercial consumers.

Long-Term Contracts

TVA has long-term contracts with all 159 power distributors.

Power Distributor Contract Status As of September 30, 1999

Contract	Number of Power Distributors
10-year rolling	58
15-year rolling	4
5 + 5	97

Under the 10-year rolling contract, the distributor's contract continues indefinitely unless TVA or the distributor terminates the contract by issuing a 10-year written notice.

Under the 15-year rolling contract, the distributor's contract continues indefinitely unless TVA or the distributor terminates the contract by issuing a 15-year written notice.

Under the 5 + 5 contract, the distributor's contract becomes a 5-year rolling contract beginning five years after the effective date of the agreement. Terms of this contract include:

- Both TVA and the distributors agree that neither will give notice to terminate the power contract for five years following the effective date of the agreement.
- At the end of the first five years, the power contract can be terminated by either TVA or the distributor upon five years' prior written notice.
- Once TVA receives five years' written notice from a distributor, TVA would not be obligated to make or complete any additions or changes to any transformation or transmission facilities unless the distributor agrees to reimburse TVA for the related non-recoverable costs.
- If retail open access occurs, TVA and the distributor will cooperate to identify and collect stranded costs from departing retail customers to the extent allowed by law.

Large Industries and Federal Agencies

TVA provides electricity directly to 55 large industries and 8 federal agencies. Industrial customers represent a solid mix of industry, including paper, chemicals, automotive and textiles. Federal agency customers include military bases and the U.S. Enrichment Corp. These 63 customers are large consumers of electricity, relying on TVA's low-cost, reliable power to successfully and competitively operate their businesses. In addition, they represent nearly 100,000 jobs in the Tennessee Valley.

In fiscal year 1999, 15 percent of TVA's power revenues came from electricity sales to these customers.

Service Offerings

TVA's Customer Service Centers provide a local single point of contact for all power distributors. Each of the 159 power distributors is assigned to a local TVA Customer Service Manager at one of TVA's 15 Customer Service Centers located throughout the Tennessee Valley region. TVA's customer service managers address all customer service needs, and customize energy services and products to meet individual customer requirements. Services offerings include:

- Immediate response to and assistance with weather-related and other emergencies affecting the transmission and distribution system
- Mobile transformers for maintaining service while performing maintenance or emergency repairs
- Power quality expertise and technical assistance for distributors and their customers
- Engineering and technical assistance to distributors' commercial and industrial customers through TVA's Comprehensive Services Program
- Operating and maintenance training for distributor personnel
- Funds for financing major capital improvements, provided through TVA's \$200 million distributor loan program
- A Distributor Procurement Partnership Program providing distributors with competitive prices on products, saving them money and providing access to a wide range of vendors
- Marketing and advertising programs targeted to the end-use consumer
- Program options designed to give distributors maximum flexibility in offering end-use customer incentives and financing. For

example, distributors of TVA power can offer increased energy efficiency and cost savings to their customers through TVA's *energyright*® program. This program is designed to encourage energy efficiency by offering consumers incentives, such as rebates and low-cost financing, on qualifying, energy efficient electric heat pumps, water heaters, newly constructed homes and manufactured homes. TVA partners with distributors of TVA power and quality contractors to ensure the products and homes meet the required energy efficiency specifications.